brisa

ANNUAL REPORT 1978

BASIC RESOURCES INTERNATIONAL S.A.

brisa

*A single
company-wide
identity program
was established in 1977.
This program will help us to
present a unified and cohesive
BRISA organization worldwide and
ensure that the benefits of recognition
accrue to all other subsidiaries.*

Above is our symbol.

ANNUAL REPORT 1978

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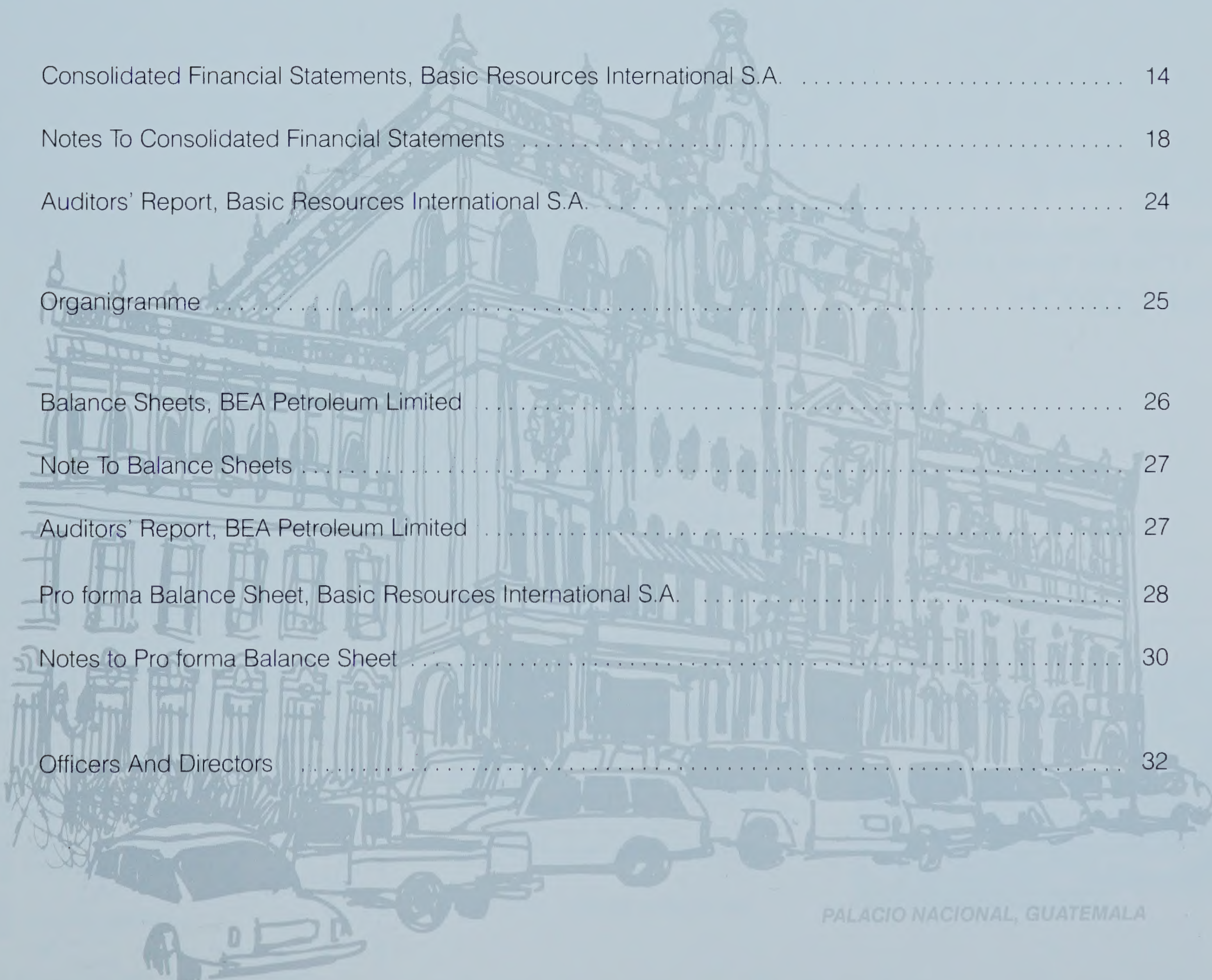
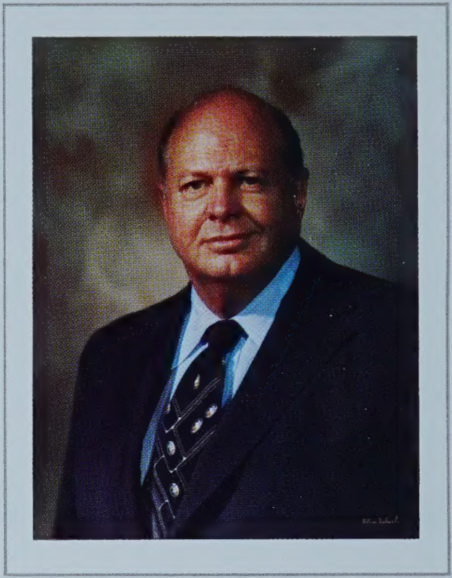


PALACIO NACIONAL, GUATEMALA

To The Shareholder



This past year has been significant in the development of our Company. Our banking arrangements have expanded and the Company has been placed on a sound financial basis. We have improved our holdings in the petroleum operation, sales of crude oil are now beginning to contribute to our cash requirements and copper prices have increased considerably in the past few months. These new developments have little or no effect on the financial condition of the Company, as reported on for December 31, 1978.

The coming on stream of the pipeline and full production from the Rubelsanto oil field in the third quarter of this year is timely. Current crude prices are excellent and the present shortage of crude oil supplies, due to the Iranian situation, ensures our entry into the market without having to give the usual incentive discounts to entice refiners to change suppliers.

The entry of Banque Occidentale pour l'Industrie et le Commerce of Paris into our banking group has considerably strengthened our financial resources, and the addition of Sir James Goldsmith, Chairman of Groupe Generale Occidentale, Paris, and of Mme. Gilberte Beaux, President of Banque Occidentale, to our Board of Directors has given us access to considerable financial and operating talent that will be very useful as BRISA changes from an exploration company to a diversified resource company with substantial revenues from the sale of petroleum and minerals.

The Company's energies during this past year have been concentrated on ensuring the completion of the pipeline from Rubelsanto. This pipeline is well under way. BRISA is now concentrating on the development of a new exploration program designed to increase petroleum reserves and production for the coming years. In preparation for this program, we presently have under way a $1.5 million seismic program to further define and, thereby, enable us to select the best of a number of attractive targets for exploration drilling on the concession. The Company is now in negotiation for additional financing to cover the cost involved in a substantial exploration program to be conducted during the last half of 1979 and in 1980.

John D Park

JOHN D. PARK
Chief Executive Officer

OTHER PETROLEUM CONTRACT AREAS

A — HISPANOIL, BRASPETROL AND ELF AQUITAINE

B — GETTY OIL, MONSANTO AND TEXAS EASTERN

C — TEXACO-AMOCO

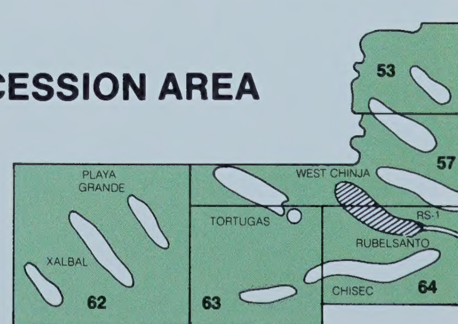
KILOMETERS 0 10 20 40 60 80 100 120
MILES 0 10 20 40 60 80
SCALE

brisa MAJOR CONCESSION AREA

PETROLEUM RIGHT-BRISA

RUBELSANTO STRUCTURE

PIPELINE UNDER CONST.



Cu OXEC COPPER MINE

Mg MAGNESITE MINE

Ni NICKEL CONCESSION

Basic Resources International (Bahamas) Limited, a wholly-owned subsidiary, holds a fifty percent interest in a 933,000 acre petroleum concession in Guatemala, as shown in the map on page 3, with Saga Petroleum A/S & Co. and Shenandoah Guatemala Inc., each holding twenty-five percent. There has been approximately $100 million spent to date on the exploration of the concession, with encouraging results. Surface geology, gravity and seismic activities have defined some thirty-seven structures which we believe to be excellent targets.

Five of these structures have been drilled to date and oil discovered on four. Mechanical problems prevented the well on the fifth structure from reaching its objective, the Coban C.

RUBELSANTO AREA: 1973 Joint Venture

On the Rubelsanto structure sufficient drilling has been performed to develop a commercial petroleum reserve. The concession holders have an agreement with a Joint Venture consisting of Basic Resources International (Bahamas) Limited and Shenandoah Guatemala Inc., a Texas corporation, for financing the exploration and development of Rubelsanto.

A contract was entered into with Entrepose S.A. of France for the construction of a 125 mile pipeline from Rubelsanto to Port Santo Tomas on the east coast of Guatemala. This pipeline, costing approximately $35 million, is designed for an ultimate capacity of 60,000 barrels per day, but with the initial pump station installed for 10,000 barrels per day.

Approximately $29 million of the cost of the construction of the pipeline was financed by a consortium of French banks led by Societe Generale S.A. Of this amount, $22.5 million is insured by COFACE, an agency of the French Government.

A computer model study of the Rubelsanto reserves was made by Drs. R. A. Morse and R. F. Strickland of Texas A & M University. This model study showed that, with an initial production rate of 9100 barrels per day, a total of 17,731,000 barrels of crude would be recovered from Zones Upper C8, C9 and C13/14, during the first ten years of production, with an additional 2,839,000 barrels estimated for C2/3 for the first ten years of production, for a total of 20,570,000 barrels from Zones C2/3 to C13/14.

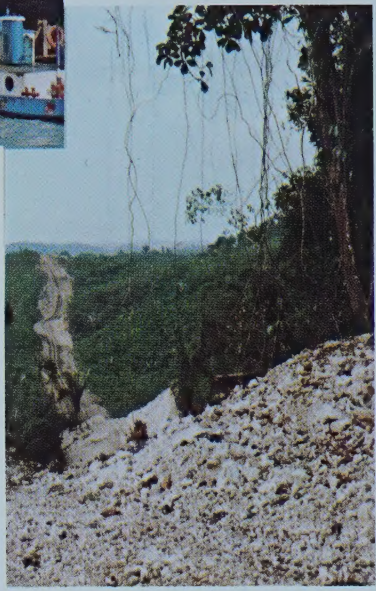
Drilling on Tortugas, to the west, and West Chinaja, to the north, has discovered commercial oil in Zones C16 and C17. Wells on Rubelsanto have not been drilled below C17. Management believes that substantial additional reserves could exist on Rubelsanto at these greater depths, and is programming a well to penetrate these lower zones which are productive on adjacent structures.

Drilling of well 4A on Rubelsanto.

Aboveground section of completed pipeline (before cleanup).

PIPELINE CONSTRUCTION

Unloading pipe from France.



Pipe-laying operation.

Bending pipe to conform to earth contours.

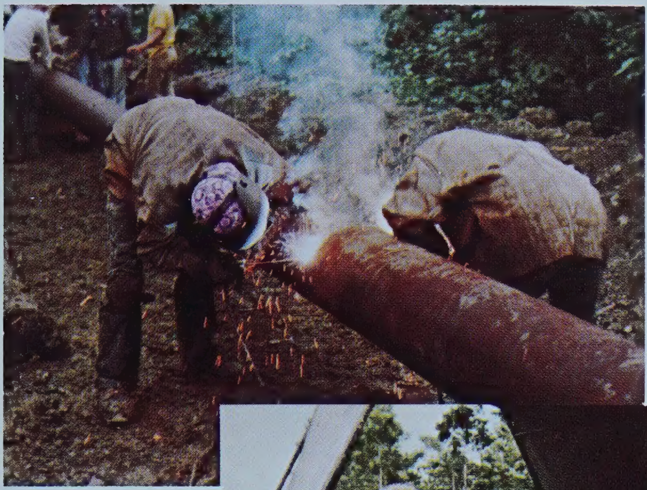
Preparation of pipeline right-of-way before stringing pipe.

CONCESSION EXCLUDING RUBELSANTO: 1977 Joint Venture

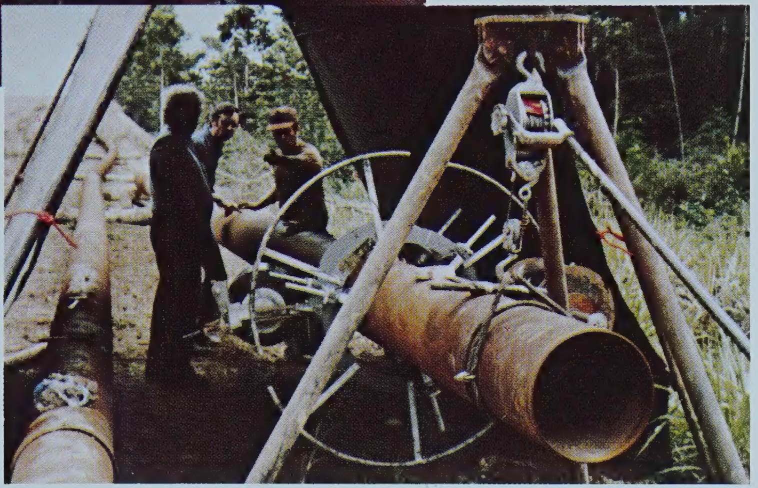
The titleholders have entered into an agreement with a Joint Venture arranged between Shenandoah Guatemala Inc. (30 percent) and BEA Petroleum Limited (70 percent), to explore and develop the concession area outside the Rubelsanto structure. A well on West Chinaja, on a one inch unrestricted choke, flowed 3300 and 3250 barrels per day from each of two zones. The West Chinaja structure has been declared commercial in accordance with the Guatemala Petroleum Code. The rate of production from this structure has not been determined awaiting the drilling of new wells on the structure and determination of the maximum efficient rate of production. In the meantime, the well is being produced at 2000 barrels per day to accumulate performance data on the reservoir, and the crude oil is being sold in the local (Guatemalan) market.

The Joint Venture is conducting a new \$1.5 million seismic program over selected areas of the concession in order to define the configuration of the Todos Santos structures (Jurassic), which lie beneath the Coban C (Lower Cretaceous) formation where the petroleum discoveries have been made to date. The exploration program for the balance of 1979 and 1980 will be defined when the results of this seismic program are received and analyzed.

The petroleum concession, which is on the Mexican border, is located in a large petrolific basin, the northwestern end of which comprises the new Reforma fields in Mexico, and where, in the southeastern end, two new



Welding operation.



Preparing pipe for wrapping of underground section.

Laying underground portion of pipeline.

Guatemalan sightseers watching pipe-laying operation.

contract areas were recently issued by the Guatemala Government to Hispanoil, Braspetrol and Elf Aquitaine, and to Getty Oil, Monsanto and Texas Eastern. We are pleased with the accelerating activity in the basin. Our concession lies directly on the trend. Management is very confident that substantial petroleum reserves will be developed by its continued drilling.

ACQUISITION OF SHENANDOAH GUATEMALA INC.

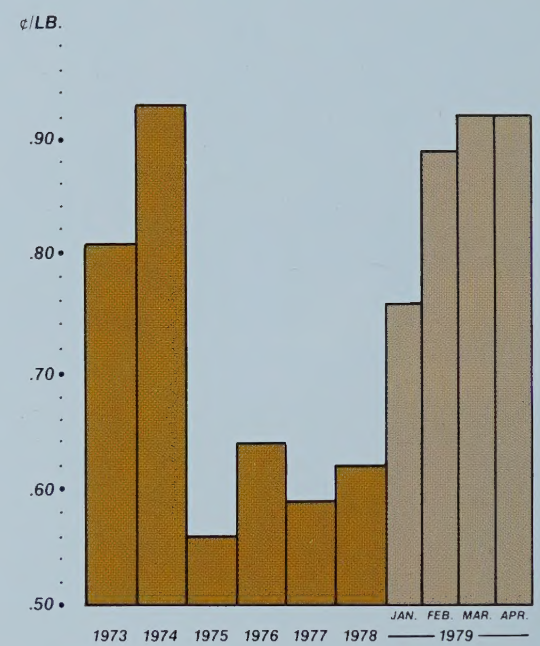
BRISA entered into an agreement with Shenandoah Oil Corporation to acquire 100 percent of Shenandoah Guatemala Inc. on July 31, 1979. If this acquisition takes place, as contemplated, BRISA will, through wholly-owned subsidiaries: Basic Resources International (Bahamas) Limited and Shenandoah Guatemala Inc., own 100 percent of the production from Rubelsanto and the pipeline from the concession to Santo Tomas and, for the remainder of the concession, BRISA will own 30 percent of the production through Shenandoah Guatemala Inc. and holds a 74 percent interest in BEA Petroleum Limited, which owns the remaining 70 percent production excluding Rubelsanto.

BRISA's partner in BEA Petroleum Limited, a Bahamian subsidiary, is Societe Nationale Elf Aquitaine, a French oil company. Elf Aquitaine is an international oil company which operates in some 33 countries in the world and has 38,000 employees and assets over $7 billion. Seventy percent of its shares, which are listed on the Paris Stock Exchange, are owned by Enterprise de Recherches et d'Activitie Petroliere, an agency of the French Government.

brisa COPPER

Transmetales Limitada, a wholly-owned subsidiary, has an operating copper mine on a five thousand acre concession in Guatemala. The copper ore is processed into a twenty-eight percent concentrate at the mine site. The total output has been sold to Rio Tinto Patino S.A. at prices quoted on the London Metal Exchange at time of delivery, less smelting and refining charges.

The mine and mill are operating efficiently and the miners and mill operators are well trained. During the period of low copper prices that prevailed for the past few years, operations were shifted from a 100 percent underground operation to where approximately 75 percent of the mill input was coming from an open pit operation in order to reduce cost to or near a break-even point. There recently has been a substantial improvement in copper prices to the point where our copper mine will begin to produce a positive net cash flow.



This increase in copper prices, which is long overdue, will in our opinion continue for a number of years. There has been relatively little expansion in the industry in a number of years. Experts in this field predict that copper must be $1 or more per pound in order to justify the new capital investment to bring new mines into production.

Loading copper concentrate for shipment to smelter.

brisa	MAGNESITE

Veitscher Magnesitwerke A.G. (VMAG), one of the leading magnesite companies in the world, and BRISA each own 50 percent of Magnesite International (Bahamas) Limited. Magnesite International (Bahamas) Limited owns Explom Limitada, a Guatemala company that holds an exploration concession in Guatemala for magnesite.

Metallurgical test work on the magnesite ore is being carried out in the laboratories of VMAG in Austria to determine the most economic design of a plant to produce dead-burned magnesite. The finished product has been fashioned into refractories that are being tested in actual service. The final feasibility report on the orebody will be available in 1980.

Should the metallurgical tests prove favorable and a plant constructed, VMAG would purchase the total output from the new plant for a minimum of five years, on fair terms based on world prices and would provide technical and operating support.

Sampling of magnesite for feasibility study.

brisa | NICKEL

NICKEL

Transmetales Limitada, a wholly-owned subsidiary, holds laterite nickel deposits, where exploration work has defined approximately 43 million tons of ore averaging 1.79 percent nickel. The orebody is satisfactorily located with respect to transportation facilities.

The economics of a lateritic nickel smelter are very sensitive to fuel cost. The Parsons Jurden Division of Ralph M. Parsons has been coordinating pilot plant work on a new process which appears to have considerable promise.

BRISA is continuing its studies to establish the most beneficial ways of bringing a smelter into operation.

Excavation of pits for sampling on nickel concession.

Site of nickel property in foreground. Navigable river to Caribbean shown in background.

CONSOLIDATED BALANCE SHEETS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1978 and 1977

ASSETS

	1978	1977
CURRENT ASSETS:		
Cash	**$ 962,234**	$ 38,770
Accounts and amounts receivable	**8,239,573**	3,872,061
Inventories (Note 1)	**2,029,884**	1,867,761
Prepaid expenses	**172,135**	162,757
Total current assets	**11,403,826**	5,941,349
INVESTMENT IN EXPLORATION, DEVELOPMENT AND EQUIPMENT (Note 1):		
Copper Property in Operation—		
Mine development and equipment costs	**7,601,842**	7,171,539
Deferred exploration and pre-operating costs	**4,473,897**	4,473,897
Less accumulated depreciation, depletion and amortization	**(5,916,951)**	(4,497,335)
	6,158,788	7,148,101
Properties in exploration and development—		
Guatemalan petroleum properties (Note 2)	**19,128,388**	16,869,452
Pipeline construction (Notes 3 and 8)	**13,792,046**	3,185,720
Other Guatemalan properties (Note 2)	**4,919,259**	4,263,289
	43,998,481	31,466,562
OTHER DEFERRED CHARGES (Note 3)	**941,737**	877,360
Total assets	**$56,344,044**	$38,285,271

The accompanying notes are an integral part of these balance sheets.

CONSOLIDATED BALANCE SHEETS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1978 and 1977

LIABILITIES AND STOCKHOLDERS' EQUITY

	1978	1977
CURRENT LIABILITIES:		
Notes payable (Note 3)—		
Banks	**$ 3,639,323**	$ 1,918,657
Other	**588,116**	44,706
Current maturities of long-term debt (Note 3)	**2,600,000**	600,000
Accounts payable and accrued liabilities	**2,221,967**	1,686,025
Accrued exploration and development costs	**2,606,952**	1,220,875
Total current liabilities	**11,656,358**	5,470,263
DEFERRED LIABILITIES (Note 5)	**418,347**	296,000
LONG-TERM DEBT (Note 3)	**28,772,763**	14,085,720
Total liabilities	**40,847,468**	19,851,983
STOCKHOLDERS' EQUITY (Note 4)	**15,496,576**	18,433,288
Total liabilities and stockholders' equity	**$56,344,044**	$38,285,271

The accompanying notes are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF REVENUES AND COSTS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
Years Ended December 31, 1978 and 1977 and four years ended December 31, 1978

	1978*	1977	Four years ended December 31, 1978
OXEC COPPER OPERATION:			
Sale of copper concentrate (Note 1)	**$ 2,090,832**	$ 2,556,598	$ 9,255,388
Less Oxec operating costs	**(3,200,081)**	(3,898,401)	(13,300,666)
Operating loss (exclusive of items shown separately below)	**(1,109,249)**	(1,341,803)	(4,045,278)
OTHER COSTS AND EXPENSES, NET (Note 1):			
Depreciation, depletion and amortization	**1,422,491**	1,448,322	5,593,198
General, administrative and other expenses	**2,492,212**	1,739,153	10,080,171
Less general, administrative and other expenses deferred	**(1,599,739)**	(1,275,478)	(7,318,884)
Loss on sale of North American petroleum properties	**—**	179,003	179,003
	2,314,964	2,091,000	8,533,488
NET LOSS	**$(3,424,213)**	$(3,432,803)	$(12,578,766)
NET LOSS PER SHARE (Note 6)	**$(0.41)**	$(0.42)	$(1.66)

*This statement does not include approximately $1.4 million of petroleum revenues, which have been credited to the deferred petroleum account, or any expenses related to petroleum operations.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1978 and 1977

	1978	1977
COMMON STOCK (Note 4):		
Common Stock, par value $3.30, authorized 14,000,000 shares; issued and outstanding 8,372,439 and 8,337,439	**$27,629,050**	$27,513,549
CAPITAL IN EXCESS OF PAR VALUE (Note 4):		
Excess of par value of common stock issued for predecessor company over book value at date of exchange	**(9,012,328)**	(9,012,328)
Excess of proceeds received over par value of common stock issued on sales of stock and exercise of warrants and options	**9,108,620**	9,086,620
Value of warrants issued in connection with Series C and D Debentures	**350,000**	—
Capital in excess of par value at end of year	**446,292**	74,292
ACCUMULATED DEFICIT (Note 1)	**(12,578,766)**	(9,154,553)
TOTAL STOCKHOLDERS' EQUITY	**$15,496,576**	$18,433,288

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
Years Ended December 31, 1978 and 1977 and since inception to December 31, 1978

	Year Ended December 31, 1978	Year Ended December 31, 1977	Since Inception to December 31, 1978
SOURCES OF FUNDS:			
Loss for the period	**$ (3,424,213)**	$ (3,432,803)	$(12,578,766)
Less depreciation, depletion, amortization and loss on sale of property	**1,422,491**	1,722,176	6,095,954
Funds used in operations	**(2,001,722)**	(1,710,627)	(6,482,812)
Proceeds from long-term debt	**17,759,390**	10,085,720	48,810,741
Sale of stock and exercise of warrants and options	**487,501**	2,059,000	28,075,342
Proceeds from sale of North American petroleum properties	**—**	242,941	242,941
Total sources of funds	**16,245,169**	10,677,034	70,646,212

	Year Ended December 31, 1978	Year Ended December 31, 1977	Since Inception to December 31, 1978
USES OF FUNDS:			
Reduction of long-term debt and deferred credits	**2,950,000**	2,000,000	19,619,632
Investment in Guatemalan petroleum properties	**2,258,936**	4,114,754	19,128,388
Investment in pipeline	**10,606,326**	3,185,720	13,792,046
Investment in other Guatemalan properties	**655,970**	1,237,893	9,815,099
Acquisition of property, plant and equipment at Oxec, net of retirements	**433,178**	350,398	7,601,842
Charges deferred in connection with financing of debentures and bonds, net	**64,377**	619,252	941,737
Total uses of funds	**16,968,787**	11,508,017	70,898,744

	Year Ended December 31, 1978	Year Ended December 31, 1977	Since Inception to December 31, 1978
INCREASE (DECREASE) IN WORKING CAPITAL	**$(723,618)**	$(830,983)	$(252,532)
Changes in components of working capital			
Cash and certificates of deposit	**$ 923,464**	$(3,775,566)	$ 962,234
Accounts and amounts receivable	**4,367,512**	3,779,621	8,239,573
Inventories	**162,123**	461,909	2,029,884
Other assets and prepaid expenses	**9,378**	(312,984)	172,135
Notes payable	**(2,264,076)**	(1,925,597)	(4,227,439)
Current maturities of long-term debt	**(2,000,000)**	2,800,000	(2,600,000)
Accounts payable and accrued liabilities	**(535,942)**	(637,491)	(2,221,967)
Accrued exploration and development costs	**(1,386,077)**	(1,220,875)	(2,606,952)
Total increase (decrease) in working capital	**$(723,618)**	$(830,983)	$(252,532)

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies:

Investment in exploration, development and equipment

Basic Resources International S.A. (BRISA) and its subsidiaries are engaged for the most part in the exploration and development of various natural resource concessions in Guatemala. This includes petroleum, copper, nickel and magnesite concessions. Operations have been started on a portion of the copper concession at the Oxec mine and commercial production was achieved in 1975. The entire Oxec production is sold to Rio Tinto Patino of Spain under an agreement in effect through 1983. A portion is still in exploration at December 31, 1978.

All costs, net of pre-operating revenues, incurred by BRISA including exploration, financing, administrative, organizational, promotional and depreciation expenses, were deferred prior to 1975. In 1975, BRISA began amortizing on a straight-line method over eight years, the previously deferred costs allocated by BRISA to the Oxec copper concession, but continues to defer such costs applicable to its petroleum and other mineral interests. Such costs applicable to the petroleum concession are accounted for under a form of the policy generally referred to as "full-cost accounting" and, accordingly, such costs are to be amortized on the unit-of-production basis once commercial production commences. In 1978, petroleum revenues of approximately $1,000,000 (after taxes) have been credited to the deferred petroleum account on the premise that petroleum operations will not commence until 1979.

The results of Oxec for the years 1978, 1977 and for the four years ended December 31, 1978 are reflected in the accompanying Consolidated Statements of Revenues and Costs.

Costs directly identifiable with a specific mineral are charged to the applicable deferred account. Indirect administrative costs incurred in 1978 and 1977 of $2,492,212 and $1,739,153, respectively, including interest costs, have been allocated by BRISA to its various concessions. $892,473 and $463,675 in 1978 and 1977, respectively, of such costs were allocated to Oxec and charged directly to expense. The balances have been deferred.

BRISA's investment in exploration and development properties in Guatemala for other than petroleum and pipeline is as follows:

	December 31,	
	1978	1977
Copper	$ 561,333	$ 444,934
Nickel	3,110,315	2,779,572
Magnesite	1,247,611	1,038,783
	$4,919,259	$4,263,289

The recovery of BRISA's investment in exploration and development costs related to the copper, nickel and magnesite concessions described in the preceding paragraph is dependent upon the future commercial productivity of the concessions. Deferred costs will be amortized as the concessions become commercial.

Property, plant and equipment

Property, plant and equipment accounts at Oxec are carried at cost and depreciated over the estimated useful life of the assets, principally on the straight-line method.

Principles applied in consolidation

The consolidated financial statements include the accounts of Basic Resources International S.A. and all its subsidiaries which consist principally of two Guatemalan subsidiaries, Transmetales Limitada and Recursos del Norte Limitada, and two Bahamian subsidiaries, Basic Resources International (Bahamas) Limited and Basic Resources (Petroleum) Limited. All significant intercompany items and transactions have been eliminated.

In accordance with United States generally accepted accounting principles in the petroleum industry, BRISA's $785,714 investment in BEA Petroleum Limited (BEA), a Bahamian corporation which is 74% owned by BRISA, and $3,888,255 representing its share of BEA's exploration costs (see Note 2) are reflected in the consolidated financial statements as investment in exploration and development.

BRISA's investment in the various joint ventures described in Note 2 is reflected in the consolidated financial statements as investment in exploration and development. The following expenditures incurred by the other parties in connection with various joint venture agreements entered into with BRISA, wherein BRISA was a carried interest, are not reflected in these consolidated financial statements:

	1978	1977	Prior to 1977
Petroleum and pipeline	$10,800,000	$15,900,000	$53,900,000
Magnesite	487,000	413,000	—
	$11,287,000	$16,313,000	$53,900,000

Foreign translation

The accounts of BRISA and its Bahamian subsidiaries are maintained in U.S. Dollars. The accounts of the Guatemalan subsidiaries are maintained in the Guatemalan currency (Quetzal) which has been at par with the U.S. Dollar since 1924. There are no restrictions in Guatemala on foreign exchange transactions. BRISA has adopted the practice of stating its consolidated financial statements in U.S. currency.

Inventory valuation

Inventories of $538,769 and $667,761 at December 31, 1978 and 1977, respectively, consist of copper concentrate and materials and supplies and are all valued at the lower of cost (FIFO) or realizable value.

The petroleum joint ventures described in Note 2 own $2,386,000 and $2,400,000 of inventory of exploration materials and supplies and drilling tools at December 31, 1978 and 1977, of which $1,491,000 and $1,500,000, respectively, are for the account of BRISA. BRISA has included in inventory $1,491,000 as of December 31, 1978 and $1,200,000 as of December 31, 1977 of such amounts, being its estimate

of the recoverable portions from third parties of such inventory values.

(2) Concessions in Guatemala:

BRISA is the holder of certain petroleum rights and copper, magnesite and nickel concessions in the Republic of Guatemala.

Petroleum (six petroleum rights: 87, 88, 89, 90, 91, and 92) Status:

Basic Resources International (Bahamas) Limited holds a 50% undivided interest in six petroleum rights (87, 88, 89, 90, 91 and 92) covering blocks 30, 53, 57, 62, 63 and 64 (approximately 933,000 acres) granted in 1970 by the Government of Guatemala. The remaining portions of the petroleum rights are held 25% by Saga Petroleum A/S & Co. and 25% by Shenandoah Guatemala Inc. (SGI). The original term of the petroleum rights was to March 10, 1976, and has been renewed for two terms of two years each in accordance with the Petroleum Code. These petroleum exploration rights expire March 10, 1980. However, the Petroleum Code permits the holder of petroleum rights to transform the right from one of exploration to exploitation for a period of 40 years by relinquishing 50% of the area in each right. The titleholders, however, upon such transformation must begin drilling operations within six months on the rights. However, the Company is not required to utilize more than one drill rig in such operation.

A declaration, in accordance with the Petroleum Code, was made to the appropriate government body that petroleum had been discovered in commercial quantities on the Rubelsanto structure on exploration right 92 (block 64). In accordance with the Code, this gives the exploration right the character of an exploitation right, and gives the titleholders the rights, and subjects them to the obligations, of a holder of an exploitation right. The authorities accepted this declaration and fixed a period of two years from September 15, 1976 for the titleholders to delineate the area and select the area to form part of the exploitation right. This period forms a part of the 40 year exploitation period. This area was selected within the time period allowed and equal area was relinquished to the state as provided for in the Petroleum Code. The remainder of the right stays in exploration. The titleholders have an agreement with a Joint Venture consisting of BRISA (62½%) and Shenandoah Guatemala Inc. (37½%) whereby the Joint Venture is supplying all financing for both the exploration and development of the Rubelsanto structure, and takes the production from such structure.

Saga Petroleum A/S & Co. (Saga) assigned its 25% interest in production from the petroleum rights, 12½% to BRISA and 12½% to Shenandoah Guatemala Inc. and kept a 1¼% net proceeds interest until Shenandoah and BRISA recoup all expenditures made on behalf of Saga's 25% of the petroleum rights, at which time Saga may at its option revert to a 5% working interest in the Joint Venture (2½% from BRISA and 2½% from Shenandoah Guatemala Inc.)

Production from the petroleum rights is subject to a 12½% royalty payable to the Government of Guatemala. In addition, the production is subject to the normal income tax payable by a Guatemala corporation. This has been estimated to be approximately 35-37% of the value of production at the wellhead. In addition, the production is subject to a supplemental tax in such amount that, by special agreement with the Government of Guatemala, the total of royalties, income taxes and any other applicable taxes payable shall be 51% of the value of the crude oil at the wellhead. The government, with one year's prior notice, may elect to take the royalties and taxes in kind. In addition, there is a 2% overriding royalty to a Guatemalan citizen.

In 1977, a new Joint Venture was established for the portion of the concession ex-Rubelsanto and, in that connection, BEA was organized in the Bahamas. Societe Nationale Elf Aquitaine (Elf Aquitaine) acquired 282,247 of the shares of BEA and BRISA acquired 785,714 of the shares for a total issued and outstanding of 1,067,961 shares.

BEA entered into a Joint Venture with Shenandoah Guatemala Inc. (the "1977 Joint Venture") to provide financing for the exploration and development of the petroleum rights, excluding Rubelsanto, and the 1977 Joint Venture has entered into an agreement with the titleholders of the petroleum rights for such financing, and for the assignment of the corresponding production to the 1977 Joint Venture. Production from the 1977 Joint Venture will be 30% for Shenandoah Guatemala Inc. and 70% for BEA, except for a well on the Chisec structure where BRISA arranged for the drilling at its sole risk and expense and will receive 500% of its cost from the first production.

BRISA and SGI are entitled to recoup the first $5,000,000 in production from the petroleum rights, excluding Rubelsanto. This production is subject to the payment of 2% overriding royalty and 1¼% net proceeds interest.

On August 25, 1978, BRISA entered into an agreement with Shenandoah Oil Corporation to acquire 100% of Shenandoah Guatemala Inc. (SGI) for a consideration consisting of cancellation of certain claims, an unsecured long-term note, bearing interest at the rate of six percent per annum, in the amount of $4.7 million, to mature June 30, 1984, plus a profit participation equivalent to five percent of what SGI would have otherwise earned from its participation until 1986 and, thereafter, ten percent until a total of $38,213,000 is reached. BRISA is to assume receivables and liabilities of SGI pertaining to the Guatemala operation as of July 1, 1978. Closing of this agreement would take place on the earliest to occur, but in no event earlier than January 15, 1979, of (a) July 31, 1979, (b) twenty days after the receipt by Shenandoah Oil Corporation of a release of its liability on the Letters of Guaranty executed by it in respect of the Buyers Credit Agreement and the Eurodollar Agreement, or (c) twenty days after oil is available at the Santo Tomas terminal on a regular basis. Shenandoah Oil Corporation will maintain its 37.5% guarantee under the Pipeline Financing until the effective date of the acquisition (See Note 8). Shenandoah Oil Corporation has provided BRISA with a power of attorney to manage SGI during the period from July 1, 1978 until the effective date of the

acquisition. In the event the closing does not take place, Shenandoah Oil Corporation shall reimburse BRISA for all expenditures made. In the event that the closing takes place, BRISA will record the following as of December 31, 1978: (a) $4.7 million additional long-term debt due to Shenandoah Oil Corporation; (b) $7.9 million additional long-term debt related to the pipeline financing; and (c) $1.3 million of accrued exploration, development and other costs.

Elf Aquitaine contributed to BEA by way of contributed capital the funds to enable BEA to finance the drilling of the three exploration wells and 15% of the other exploration expenses. The contribution to capital amounted to $11,137,111 by December 31, 1978.

See accompanying balance sheets of BEA Petroleum Limited.

MAGNESITE Diana Patricia (Saquipec)
An exploitation concession was granted in June 1973, for a period of forty years.

COPPER
Oxec—An exploitation concession was granted in October, 1972, for a period of forty years.

Chisayte—An exploration concession was granted in July, 1976, for a period of three years. The exploration concession may be renewed for an additional two years for up to 50% of the area. The Company is preparing the application for such renewal.

Chiacach—An exploitation concession was granted in April, 1977, for a period of forty years.

NICKEL Chitcoj, Chiis, Chatela, Buena Vista A, Buena Vista B
Application has been made for the conversion of the exploration concessions to exploitation concessions as provided for under the Mining Code.

(3) Short-term borrowings and Long-term debt:

Short-term borrowings

BRISA has an agreement with a bank under which the bank advances to BRISA amounts equal to a percentage of the provisional invoice value of copper concentrate sold and the value of the concentrate inventory in Guatemala bearing interest at 1¼% per annum over the London Interbank Eurodollar rate. At December 31, 1978, there was $946,202 outstanding under this agreement. There was $458,521 outstanding at December 31, 1977.

BRISA issued during 1977 a short-term note payable which has been periodically renewed for $1,000,000, bearing interest at 2% per annum over the prime commercial rate. This note is severally and jointly guaranteed by certain directors and/or officers of BRISA.

As of December 31, 1978, BRISA also had outstanding $1,600,000 notes payable to a bank, $1,000,000 of that amount had an interest rate of 2% in excess of the offered rate for one year Eurodollar deposits and $600,000 had an interest rate of 1.75% in excess of the offered rate for three month Eurodollar deposits. The note bearing interest at 1.75% above the offered rate for three month Eurodollar deposits is severally and jointly guaranteed by certain directors and/or officers of BRISA. In addition, as additional compensation to the bank in consideration for these notes payable, BRISA has agreed to pay to the bank 2% of the Net Proceeds to BRISA from the Rubelsanto Oil. In this case the "Rubelsanto Oil" means oil extracted from the Rubelsanto field in Petroleum Right 92 in Guatemala above the deepest stratographic depth of all wells drilled in this field as of October 20, 1978 and "Net Proceeds" means proceeds to BRISA from production of 62.5% of Rubelsanto Oil less all relevant royalties, taxes, costs and expenses and repayments of principal and interest on funds borrowed incident to the pipeline financing.

Maximum amounts of short-term bank loans outstanding were approximately $3,500,000 and $2,200,000 during 1978 and 1977, respectively. The average outstanding balances during 1978 and 1977 were approximately $2,100,000 and $655,000, respectively.

Weighted-average interest rates applicable to short-term borrowings were 10.2% in 1978 and 8¼% in 1977. The interest rates on outstanding borrowings at December 31, 1978 and 1977, were 13.3% and 9¼%, respectively.

Long-term debt	1978	1977
Sinking Fund Debentures, due September, 1980	$ 4,000,000	$ 4,000,000
Series B Debentures, due September, 1980	4,000,000	4,000,000
Series C Debentures, due January, 1984	6,000,000	—
Series D Debentures, due January, 1984	1,000,000	—
First Mortgage Bonds, due December, 1980	2,900,000	3,500,000
Pipeline Financing (see Note 8)	13,617,398	3,185,720
Other	205,365	—
	31,722,763	14,685,720
Less: Current maturities	2,600,000	600,000
Less: Unamortized debt discount	350,000	—
Long-term	$28,772,763	$14,085,720

In 1975, BRISA sold Sinking Fund Debentures, which will mature on September 10, 1980, and may be redeemed, at the option of BRISA, prior to that date upon payment of a premium of 2% through September 10, 1979. The debentures bear interest at 1¾% over the London Interbank Eurodollar rate, payable semi-annually in March and September. The interest rate was 10-15/16% per annum at December 31, 1978 and 9¼% per annum at December

31, 1977. The indenture provides for a sinking fund payment of $2,000,000 at December 31, 1979. As security for the Sinking Fund Debentures, BRISA has pledged and delivered to the Trustee all the capital shares of Basic Resources International (Bahamas) Limited and Basic Resources (Petroleum) Limited. In connection with a 1977 financing, $4,000,000 of the Sinking Fund Debentures due December 31, 1977 and 1978, was refinanced by the issuance of an equal amount of debentures (Series B) due September 1980, which bear interest at 2¼% over the London Interbank Eurodollar rate payable semi-annually in March and September. The costs of $481,087, and $632,613, incurred applicable to the issuance of the Sinking Fund Debentures and the 1977 financing, respectively, have been deferred and are being amortized over the terms of the debt. The deferred portions as of December 31, 1978 and 1977, are $600,933 and $877,360, respectively. In conjunction with the 1975 issue, BRISA issued share purchase warrants which expire on September 10, 1980, entitling the holders thereof to purchase an aggregate of 1,000,000 common shares. These warrants are exercisable as follows:

Period	Per Share Price
On or before September 10, 1979	$17.00
After September 10, 1979	20.00

At the option of the warrant holders, satisfaction of the exercise price may be made either in cash or by the delivery of debentures, or a combination of both.

As part of the 1977 financing, BRISA also issued $3,500,000 of three-year First Mortgage Bonds. These bonds provide for semi-annual sinking fund payments of $300,000 each June and December with interest at the rate of 2¼% above the London Interbank Eurodollar rate. Under the indenture agreement for the First Mortgage Bonds, BRISA agrees to remit to the Trustee 25% of the net revenues from the Oxec concession, as long as any of the bonds are outstanding. The funds will be held as security for the payment of the bonds and may be applied to the payment of the sinking fund amounts. The First Mortgage Bonds are secured by the Oxec copper mine and plant. In addition, certain stockholders, two of whom are directors, have pledged an aggregate of 1,000,000 shares of BRISA as security for payment of the First Mortgage Bonds.

In conjunction with the $7,500,000 combined 1977 debt, BRISA issued share purchase warrants which expire in December, 1980 entitling the holders thereof to purchase an aggregate of 1,500,000 common shares at $6.50 per share.

As of December 29, 1978, BRISA issued five-year Series C Debentures in the amount of $6,000,000, which bear interest at 2.5% over the London Interbank Eurodollar rate payable semi-annually on January 31 and July 31. The indenture provides that the Company shall redeem pro rata a portion of each Series C Debentures at par on January 31 in each of the years 1982 to 1984, inclusive, as follows: 1982–90%; 1983–5%; and 1984–5%. In conjunction with this issue, BRISA issued Series A and Series B share purchase warrants which expire on January 31, 1984, entitling the holders thereof to purchase an aggregate of 1,500,000 and 500,000 common shares, respectively. The Series A Warrants are exercisable at $4.00 per share and the Series B Warrants are exercisable as follows:

Period	Per Share Price
On or before January 31, 1982	$ 8.00
On or before January 31, 1983	10.00
On or before January 31, 1984	12.00

The Purchase Agreement related to the Series C Debentures includes restrictions on payment of dividends, restrictions with respect to liens, debts and other matters, restrictions on the creation and assumption of funded or current debt and restrictions on loans, advances, investments and contingent liabilities.

As of December 29, 1978, BRISA issued five year Series D Debentures in the amount of $1,000,000 which bear interest at 2.5% over the London Interbank Eurodollar rate payable semi-annually on January 31 and July 31. The indenture provides that the Series D Debentures shall mature $900,000 on January 31, 1982, $50,000 on January 31, 1983, and $50,000 on January 31, 1984. In conjunction with this issue, BRISA issued Series A share purchase warrants which expire on January 31, 1984, entitling the holders thereof to purchase an aggregate of 250,000 common shares at a price of $4.00 per share.

At the option of the aforementioned Series A and Series B Warrant holders, satisfaction of the exercise price may be made either in cash or by the delivery of debentures, or a combination of both. In connection with the issuance of the Series A and Series B Warrants, a value of $350,000 has been attributed to the 2,250,000 warrants. Accordingly, capital in excess of par value and debt discount of $350,000 have been recorded in the accompanying consolidated financial statements. The costs of approximately $400,000 incurred applicable to the issuance of the Series C and Series D Debentures have been deferred and are being amortized over the term of the debentures.

Since the cash proceeds for the Series C and Series D Debentures were not received until February 6, 1979 and February 20, 1979, the $7,000,000 of proceeds related to the debentures have been shown as an amount receivable as of December 31, 1978.

Debt maturity in the years 1979 through 1983 is:

1979	$2,600,000*
1980	8,300,000
1981	—
1982	6,300,000
1983	350,000

*This amount has been included as a current liability in the accompanying consolidated balance sheet.

The above amounts do not include maturities related to the pipeline financing which are to be paid in semi-annual installments over a three- to five-year period, beginning six months after issuance of the certificate of completion of the pipeline or 25 months from coming into force of the construction contract, whichever is earlier in the case of the Buyers Credit loan, and two years after the signing of the amended loan agreement in the case of the Eurodollar loan (March 13, 1980). See Note 8 for a further discussion of these agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Common Stock:

A statement of stockholders' investment from the inception of BRISA in 1968 through December 31, 1974 is as follows:

	Shares Issued	Amount Recorded (a)
From inception to June 30, 1970:		
Issued for cash	3,155,651	$ 433,530
Contributed surplus arising from joint venture payments	—	675,000
During fiscal year ended June 30, 1971:		
For cash	160,711	626,335
For services rendered in connection with the sale of debentures	100,000	245,000
For conversion of debt	435,763	1,696,401
For acquisition of 50% of Petrotech Inc.	256,042	826,319
During the fiscal year ended June 30, 1972:		
For acquisition of options on nickel concessions	60,028	238,100
For exercise of stock options	2,900	11,600
	4,171,095	4,752,285
Excess of par value of common stock issued for predecessor company over book value at date of exchange (b)	—	9,012,328
	4,171,095	13,764,613
During the six months ended December 31, 1972:		
For services rendered in connection with the sale of debentures	100,000	330,000
During the year ended December 31, 1973:		
For part of the purchase price of the copper beneficiation plant	100,000	330,000
For exercise of share purchase warrants by payment of cash ($98,000) and par value of debentures (c)	740,996	2,445,287
Balance, December 31, 1973 and 1974	5,112,091	$16,869,900

An analysis of the increase in common stock for the four years ended December 31, 1978, is as follows:

		Amount	
	Shares Issued	Par Value	Capital in Excess of Par Value
Balance, December 31, 1974	5,112,091	$16,869,900	$(222,286)
Exercise of share purchase warrants granted under term of an indenture	1,330,003	4,389,010	3,171,008
Sale of treasury stock for cash	159,004	524,713	82,342
Exercise of options granted under an employee stock option plan and other	233,500	770,550	24,256
Balance, December 31, 1975	6,834,598	22,554,173	3,055,320
Issuance of stock for cash	928,300	3,063,390	4,494,398
Exercise of share purchase warrants granted under term of indenture	129,001	425,704	348,303
Exercise of options granted under an employee stock option plan and other (d)	165,540	546,282	53,599
Balance, December 31, 1976	8,057,439	26,589,549	7,951,620
Issuance of stock for cash	200,000	660,000	1,050,000
Exercise of options granted (i) under an employee stock option plan (55,000 shares) and (ii) to former holder of petroleum concession in Guatemala (25,000 shares) (e)	80,000	264,000	85,000
Balance, December 31, 1977	8,337,439	27,513,549	9,086,620
Exercise of options granted under an employee stock option plan (f)	35,000	115,501	22,000
Value attributable to Series A and Series B Share Purchase Warrants issued in conjunction with Series C and Series D Debentures (Note 3)	—	—	350,000
Balance, December 31, 1978	8,372,439	$27,629,050	$ 9,458,620

(a) Amounts recorded for issue other than for cash were in accordance with resolutions of the Board of Directors.

(b) Basic Resources International S.A. was incorporated in Luxembourg in December, 1971, and acquired the net assets of Basic Resources International Limited, a predecessor company incorporated in Ontario, Canada. The par value of 4,171,095 shares of common stock issued at $3.30 per share exceeded the $4,752,285 net assets of the predecessor company by $9,012,328.

(c) The 740,996 shares were issued at $3.00 per share resulting in a $222,286 excess of par value of common stock issued over proceeds received from exercise of warrants.

(d) During 1976, options covering 15,000 shares were granted at an exercise price of $8.50 per share, options for 60,000 shares were exercised at a price of $3.30 per share, and 15,000 shares were forfeited. In addition to the exercise of employee stock options during 1976, other options for a total of 105,540 shares were exercised during 1976, 65,681 shares under option were cancelled in exchange for a total cash payment of $65,681 to the option holders, and 445 options expired.

(e) During 1977, options covering 75,000 shares were granted at an exercise price of $4.375 per share and options for 80,000 shares were exercised at prices ranging from $3.30 to $5.00.

(f) During 1978, options covering 50,000 shares were granted at an exercise price of $4.125 per share, 15,000 shares were forfeited and options for 35,000 shares were exercised at prices ranging from $3.30 to $5.50.

As of December 31, 1978, there are 4,974,000 shares of common stock reserved as follows:

(1) There are 4,750,000 shares of common stock of BRISA reserved for issue upon the exercise of share purchase warrants in connection with the issue of the long-term debt described in Note 3.

(2) BRISA is authorized, under certain conditions, to issue to directors, officers and key employees options totaling a maximum of 5% of the outstanding shares. At December 31, 1978, 224,000 shares of common stock are reserved for issue upon exercise of such options as follows:

49,000 shares at $3.30 per share
expiring April 14, 1979
50,000 shares at $5.50 per share
expiring June 12, 1980
75,000 shares at $4.375 per share
expiring October 2, 1982
50,000 shares at $4.125 per share
expiring August 1, 1983.

Of the 224,000 shares reserved, 129,000 shares were earned at December 31, 1978.

(5) Deferred Liabilities:

Deferred liabilities consist primarily of advances repayable solely out of certain future revenues, as defined, that may be received by BRISA from certain concessions.

(6) Net Loss Per Share:

Net loss per share has been computed based on 8,358,772 and 8,268,977 average common shares outstanding for the years ended December 31, 1978 and 1977, respectively. All outstanding warrants and options have been excluded from the calculation since their effect would be anti-dilutive.

(7) Transactions with officers, directors and/or related parties:

BRISA has, from time to time, incurred short-term borrowings from certain of its officers and directors in the form of demand loans with interest rates approximating prime rates at the time the loans were incurred. During 1977, the maximum amount outstanding was $500,000. The maximum amount outstanding during 1978 approximated $100,000. These loans were generally obtained to cover working capital requirements while arrangements were being completed for normal commercial loans.

Certain directors and/or officers have jointly and severally guaranteed $1,000,000 and $600,000 short-term notes payable which are further described in Note 3.

In addition, certain stockholders, two of whom are directors, have pledged an aggregate of 1,000,000 shares of BRISA as security for payment of the First Mortgage Bonds described in Note 3.

(8) Pipeline financing and commitments:

On February 4, 1977, and subsequently amended on March 13, 1978, BRISA and Shenandoah Oil Corporation entered into an agreement with Entrepose S.A. for the furnishing of materials and equipment for, and the construction of, a pipeline from Rubelsanto to the east coast of Guatemala, including gathering system and tanker loading facilities. Construction is estimated to be completed by July, 1979.

Basic Resources International (Bahamas) Limited and Shenandoah entered into agreements on February 4, 1977, which were subsequently amended on March 13, 1978, with a consortium of banks headed by Societe Generale S.A., for:

(a) a Buyers Credit loan of French Francs 97,000,000 repayable in installments over a period of five years commencing six months after completion of the pipeline or 25 months from coming into force of this construction contract, whichever is earlier, bearing interest at the rate of 7¼% per annum.

(b) a Eurodollar loan of $6,500,000 repayable in installments commencing March 13, 1980 through March 13, 1983, bearing interest at the annual rate of 2¼% over the London Interbank Eurodollar rate.

The debt is a joint and several obligation of Basic Resources International (Bahamas) Limited and SGI and has been guaranteed severally as to 62½% by BRISA and 37½% by Shenandoah. The guarantors are relieved of their obligations under such guarantee agreements as they apply to the Buyers Credit loan upon the happening of certain political events.

In addition to borrowed funds, BRISA anticipates that a total of $9,000,000 will be required to complete the pipeline of which amount $6,000,000 will be for the account of BRISA and the balance will be advanced by BRISA for the account of SGI.

BRISA's 62½% share of the borrowed funds is $13,156,124 at December 31, 1978. Reference is made to Note 2 with respect to the agreement with Shenandoah, scheduled to be closed in 1979, which may have the effect of BRISA owning 100% of the pipeline.

AUDITORS' REPORT

To the Stockholders of
BASIC RESOURCES INTERNATIONAL S.A.:

We have examined the consolidated balance sheets of Basic Resources International S.A. (a Luxembourg corporation) and subsidiaries as of December 31, 1978 and 1977, the related consolidated statements of revenues and costs, stockholders' equity, and changes in financial position for the years then ended, and the consolidated statement of revenues and costs for the four years ended December 31, 1978 and consolidated statement of changes in financial position since inception to December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in Note 1 to the consolidated financial statements, the Company and its subsidiaries have incurred exploration and development costs of $4,919,259 as of December 31, 1978, applicable to certain mineral concessions in Guatemala. Recovery of these costs is dependent upon the future commercial productivity of the concessions.

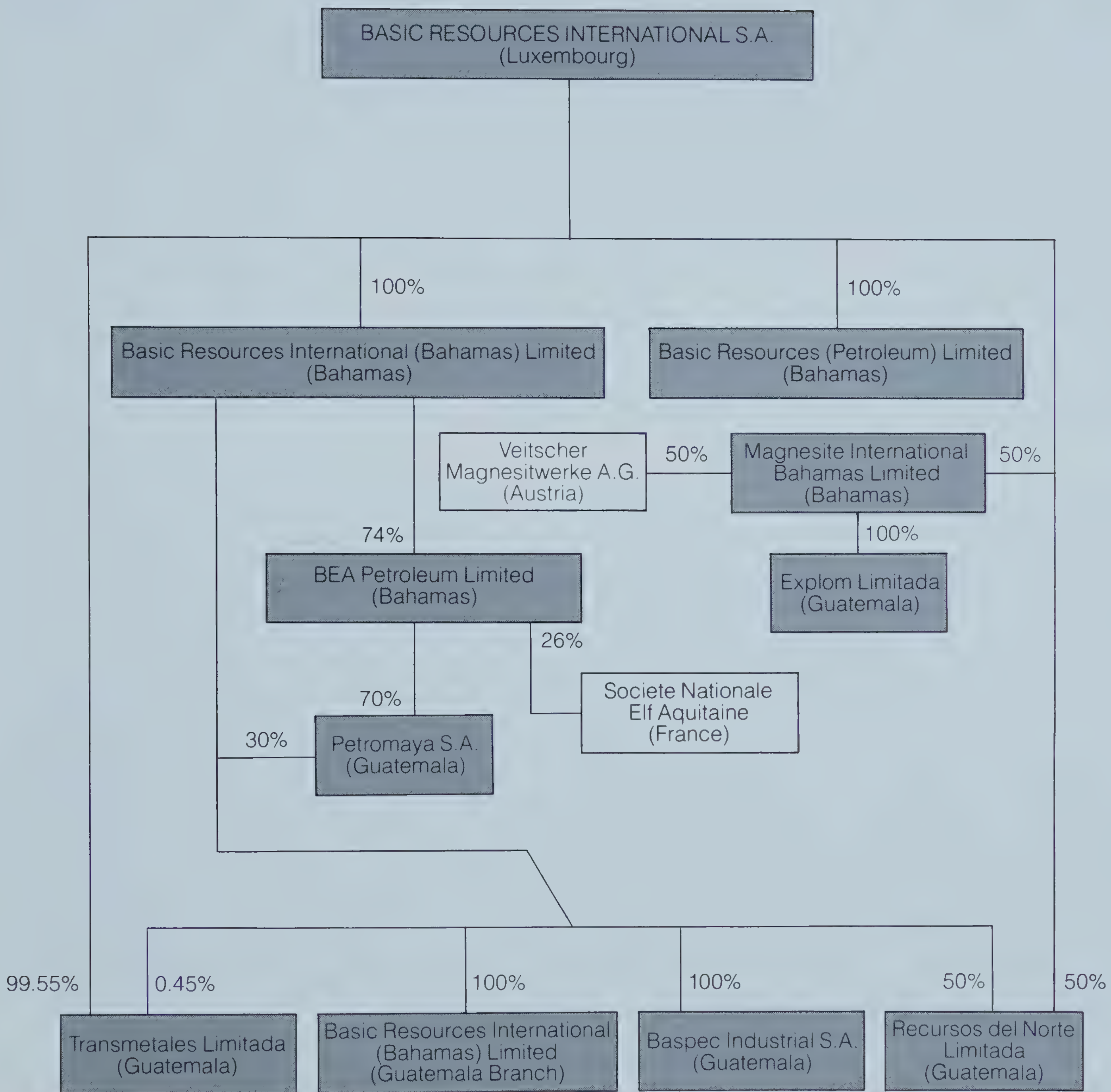
In our auditors' report dated May 1, 1978, our opinion on the 1977 consolidated financial statements was qualified as being subject to the recovery of exploration and development costs incurred by the Company and its subsidiaries applicable to petroleum concessions in Guatemala. As explained in Notes 1 and 8 to the consolidated financial statements, petroleum sales in commercial quantities started in the first quarter of 1979. Accordingly, our present opinion on the 1977 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

As set forth in Note 3 to the consolidated financial statements, the Company entered into agreements on December 29, 1978 for the issuance and sale of $7,000,000 of Series C and Series D Debentures. The related amounts were recorded in the 1978 consolidated financial statements as a receivable, with the appropriate effect on the consolidated balance sheet, consolidated statements of stockholders' equity and changes in financial position of recording such amounts. Since the proceeds of this financing were received on February 16, 1979 and February 20, 1979, the United States generally accepted accounting principles would have been to record the transaction in 1979.

In our opinion, subject to the recovery of exploration and development costs referred to above, and, except for the effect upon the consolidated financial statements of the recording of the financing referred to in the preceding paragraph, the aforementioned consolidated financial statements present fairly the financial position of Basic Resources International S.A. and subsidiaries as of December 31, 1978 and 1977, and the results of their operations and changes in their financial position for the periods mentioned in the first paragraph, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, N.Y.
May 15, 1979

ARTHUR ANDERSEN & CO.



BASIC RESOURCES INTERNATIONAL S.A.
(Luxembourg)
100%
100%
Basic Resources International (Bahamas) Limited
(Bahamas)
Basic Resources (Petroleum) Limited
(Bahamas)
Veitscher
Magnesitwerke A.G.
(Austria)
50%
Magnesite International
Bahamas Limited
(Bahamas)
50%
74%
100%
BEA Petroleum Limited
(Bahamas)
Explom Limitada
(Guatemala)
26%
Societe Nationale
Elf Aquitaine
(France)
70%
30%
Petromaya S.A.
(Guatemala)
99.55%
0.45%
100%
100%
50%
50%
Transmetales Limitada
(Guatemala)
Basic Resources International
(Bahamas) Limited
(Guatemala Branch)
Baspec Industrial S.A.
(Guatemala)
Recursos del Norte
Limitada
(Guatemala)

BEA PETROLEUM LIMITED

Balance Sheets as of December 31, 1978 and 1977

ASSETS	1978	1977
Cash	$ 522	$ 549
Investment in Petromaya S.A.	14,000	14,000
Investment in petroleum properties	16,037,563	10,365,795
	$16,052,085	$10,380,344

LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$ 241,005	$ 1,018,860
Shareholders' Equity:		
Common Stock authorized, issued and outstanding, at December 31, 1978: 1,067,961 shares, par value $1.00, and at December 31, 1977: 1,000,000 shares, par value $1.00	1,067,961	1,000,000
Surplus contributed by:		
—Basic Resources International S.A.	3,888,255	1,136,738
—Societe Nationale Elf Aquitaine	10,854,864	7,224,746
	15,811,080	9,361,484
	$16,052,085	$10,380,344

NOTE TO BALANCE SHEETS

Significant Accounting Policies—

BEA Petroleum Limited (BEA) was organized in 1977 in the Bahamas with an authorized capital of 1,000,000 shares of $1 par value. Societe Nationale Elf Aquitaine (Elf Aquitaine) acquired 214,286 of such shares, at the par value thereof, and Basic Resources International S.A. (BRISA) acquired 785,714 of such shares. In 1978, the capital of BEA was increased to $1,067,961 by the creation of 67,961 shares of $1 par value. Elf Aquitaine acquired those 67,961 shares at par value.

BEA is engaged in the exploration of petroleum properties in Guatemala as further described in Note 2 of the Notes To Consolidated Financial Statements of Basic Resources International S.A. and subsidiaries included herein. All costs incurred to date have been capitalized as investment in petroleum properties.

The recovery of the investment in petroleum properties, which consists of capitalized exploration costs to be amortized as the petroleum properties become commercial, is dependent upon the future commercial productivity of the petroleum properties.

AUDITORS' REPORT

To the Shareholders of
BEA Petroleum Limited:

We have examined the balance sheets of BEA Petroleum Limited (a Bahamas corporation) as of December 31, 1978 and 1977. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in the Note to the balance sheets, the Company has incurred exploration costs of $16,037,563 as of December 31, 1978, applicable to its petroleum interests in Guatemala. Recovery of these costs is dependent upon the future commercial productivity of these interests.

In our opinion, subject to the recovery of exploration costs discussed above, the balance sheets referred to above present fairly the financial position of BEA Petroleum Limited as of December 31, 1978 and 1977, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, N.Y.
May 15, 1979

Arthur Andersen & Co.

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES

PRO FORMA CONSOLIDATED BALANCE SHEET
(UNAUDITED)
31 DECEMBER 1978

The Company has prepared a pro forma consolidated balance sheet to show the financial position of the Company and its subsidiaries including its 74 percent-owned subsidiary, BEA Petroleum Limited. This balance sheet has been prepared in accordance with the format normally used in Europe, and has been adjusted to reflect the following significant events which have occurred or will occur subsequent to December 31, 1978.

- The acquisition of Shenandoah Guatemala Inc., which is expected to be finalized in June 1979.

- The issue and sale of $13,000,000 in Series E Unsecured Convertible Debentures which is the first tranche of a $26.5 million financial package. The shareholders approved the financial plan on May 24, 1979 and the issue was sold on May 31, 1979.

- A rights issue to shareholders in the amount of approximately $13.5 million, which has been underwritten by a syndicate of financial institutions headed by Banque Occidentale pour l'industrie et le commerce. This issue is expected to be completed during June-July 1979.

- The completion and payment for the construction of the Rubelsanto pipeline scheduled for start up in the third quarter of 1979.

The accompanying pro forma unaudited consolidated balance sheet, which reflects the total amount that has been spent on the Guatemalan Concessions, should be read in conjunction with the consolidated financial statements appearing on pages 14 through 24 of this Annual Report.

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED BALANCE SHEET
(UNAUDITED)
31 DECEMBER 1978

		In Millions of Dollars
Exploration, development and other properties at aggregate cost to the participating companies:		
Petroleum exploration and drilling	$77.1	
Pipeline and terminal costs	39.0	
Overhead and company start up costs	13.7	
Exploration properties other than oil	4.9	
Copper properties and equipment less depreciation	6.2	
		$140.9
Less: Net amount contributed by joint venturers repayable out of future revenues (Note 3)		55.5
		85.4
Deferred charges		1.4
Current Assets		
Cash	24.5	
Accounts receivable and prepaid expenses	1.4	
Inventories	2.0	
		27.9
		114.7
Less: Current Liabilities		
Notes payable to banks	4.2	
Current maturities of long term debt	2.6	
Accounts payable and accruals	2.4	
Accrued exploration costs	3.9	
		13.1
		101.6
Less: Deferred Liabilities	0.4	
Long term debt (Note 3)	61.5	
Minority interest	4.1	
		66.0
		$ 35.6
Share capital (Note 4)		$ 38.8
Share premium account		2.2
Consolidated capital reserve		7.1
Accumulated deficit from revenue reserves		(12.5)
		$ 35.6

The accompanying notes are an integral part of the pro forma unaudited consolidated balance sheet.

NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEET

1. The pro forma consolidated balance sheet of Basic Resources International S.A. (BRISA) at 31 December 1978 includes:

(a) Audited consolidated accounts of Basic Resources International S.A.

(b) Audited accounts of BEA Petroleum Limited, in which BRISA has 74 percent interest, not previously consolidated.

(c) Liabilities of Shenandoah Guatemala Inc. (SGI) as warranted under an agreement dated 25 August 1978 together with the amount of that company's exploration costs in Guatemala.

(d) Exploration costs in Guatemala of Saga Petroleum A/S & Co., which were acquired by BRISA and SGI in consideration of a future net proceeds or working interest in the Rubelsanto Field as outlined below.

(e) Subscription of the rights and Series E Debentures less estimated costs associated therewith.

(f) Cost of completion of the pipeline and terminal in Guatemala which is estimated to amount to $16.1 million after 31 December 1978.

2. As a result of the proposed acquisition of SGI, BRISA will have acquired effectively a 100 percent interest in the Rubelsanto Field and an 81.8 percent interest in the balance of the Concession area, mainly as the result of the acquisition of other parties' interests. Proceeds from the sale of oil from the Concession are subject to certain royalties and net proceeds as shown in the notes to the audited financial statements.

3. The long-term debt of the Company is analyzed as follows:

	In Millions of Dollars
Sinking Fund Debentures Due 1980	$ 2.0
Series B Debentures due 1980	4.0
Series C Debentures due 1984	6.0
Series D Debentures due 1984	1.0
Series E Debentures due 1986	13.0
First Mortgage Bonds due 1980	2.3
Pipeline Financing repayable in installments up to 1985	28.6
Other	4.6
	$61.5

The Series E Debentures are convertible into ordinary shares of the Company at a price of $5.725 per share up to May 1986.

4. The authorized capital of the Company is 24,000,000 shares at U.S. $3.30 each, of which 11,800,000 will be in issue after the proposed rights issue.

In addition to the shares which may be issued under the Series E Debentures described in Note 3, there are warrants outstanding for a total of 5,474,000 shares exercisable between 1979 and 1985 at prices between U.S. $4.00 and U.S. $20.00 per share.

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BASIC RESOURCES (PETROLEUM) LIMITED
BEA PETROLEUM LIMITED
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RECURSOS DEL NORTE LIMITADA
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CORPORATE OFFICERS

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Chief Executive Officer

BRIAN J. CALLAWAY
Managing Director Operations

DONALD C. CAMPBELL
Executive Vice President

RONALD E. EVENSON
Vice President Petroleum

M. R. BONNER
Vice President Administration

JOHN FRENCH
Secretary

RICHARD L. BRIDGEWATER
Vice President-Treasurer & Controller

DIRECTORS

*ROBERT W. PURCELL
New York, New York
Chairman Of The Board

*JOHN D. PARK
Don Mills, Ontario, Canada
Vice Chairman Of The Board
And Chief Executive Officer

*GILBERTE E. BEAUX
Paris, France
President of Banque Occidentale
pour l'Industrie et le Commerce
Director Of Generale Occidentale S.A.

BRIAN J. CALLAWAY
Middlesex, England
Chief Executive Officer,
Of Industrial Operations,
Generale Occidentale S.A.

DONALD C. CAMPBELL
Guatemala City, Guatemala
Executive Vice President

*SIR JAMES GOLDSMITH
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Chairman Of Generale Occidentale S.A.
Director Of Banque Rothschild
Chairman And Managing Director
Of Groupe Express (the French
publishing company)

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El Dorado, Arkansas
Consulting Geologist
Director Of Ocean Oil And Gas Company
Retired Senior Officer And Former Director
Of Murphy Oil Corporation

WILLIAM E. LEONHARD
Pasadena, California
Chairman, President And Chief Executive
Officer of The Parsons Corporation

KENNETH G. MURTON
Westport, Connecticut
Chairman Of Petrotech, Inc.

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Executive Vice President Of The
Banque de Paris et des Pays-Bas
(Suisse) S.A.

*Member Of Executive Committee

Transfer Agent
National Trust Company, Limited
Montreal, Quebec, Canada

Stock Listing
U.S. Over The Counter-BASRF
Toronto and Montreal Over The Counter-BAS

The 1979 Annual General Meeting of Shareholders of the Company will take place in Luxembourg at 11:00 A.M. Friday, June 29.

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BASIC RESOURCES INTERNATIONAL S.A.